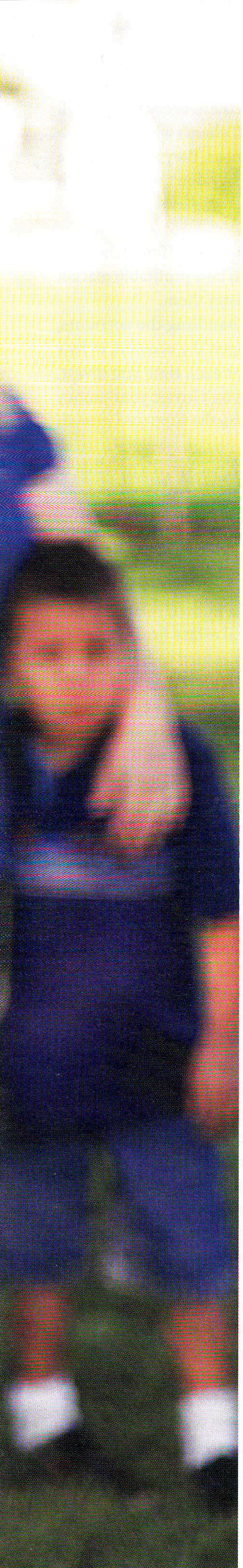
Jonathan Stein settled for a health savings account coupled with a high-deductible insurance plan so that the rest of his family could afford good coverage. But he's found his insurance largely useless.



Conservatives are pushing health savings accounts to expand insurance for Americans, but experience and research shows they are a losing bet for patients' health and pocketbooks. Just who is really banking off HSAs? **BY HEATHER BOERNER**

PHOTOGRAPH BY FRANKLIN AVERY

UNHEALTHY GAMBLE

Jonathan Stein takes his health seriously.

But he takes his responsibilities as a father even more seriously.

And so it is that Stein, a self-employed 34-year-old lawyer living in Sacramento, Calif., decided to risk his future health so that his wife and three boys will have health coverage for their chronic conditions. His wife has two herniated disks. The couple's oldest son is autistic, the middle boy has asthma, and the youngest was born with a congenital heart defect.

If his family could afford the exorbitant premiums, he would have joined them on their high-benefit HMO. But on close to $58,000 a year in income (about the U.S. average for taxfilers), he went with what he thought was the next best thing—a high-deductible health plan linked to a tax-advantaged health savings account, or HSA. It's the type of plan that plays a major component in the healthcare platform of Republican presidential candidate Sen. John McCain and is touted by other conservatives and the insurance industry as a way to expand health coverage and contain costs.

Stein admits his decision is a huge gamble, one his family cannot afford to lose. He is the sole breadwinner at the moment and his wife acts as his office manager.

"I guess I'm more willing to take the risk that I'm not going to have a huge medical bill—knock on wood—every year because I try to do everything right throughout the year," he said. "I do soccer and tae kwon do. I run. I try to stay healthy. I'm not a daredevil. So I take the chance. I figure I've got other things I have to worry about first and I put my needs behind those. [My health] is the last thing on the list."

So far, the plan has worked great. Well, that is, except when he got kicked in the ribs during his martial arts class. Or when he twisted his ankle after that. Then he caught that cold he couldn't shake. He waited and waited to seek medical treatment for his injuries, resting and putting ice on his ribs, and visiting his mother-in-law, an RN, for advice. Finally, armed with a small laundry list of ailments, he broke down and saw the family doctor for the first time in two years. "I went in and told her, 'In addition to my cold, can you look at my rib, my knee, and my right ankle while you're at it?'" he recalled. Total bill: $350.

"That's just ridiculous," he remembered, thinking of the expense.

Supporters of health savings accounts don't think so. Indeed, they think the high deductibles and financial barriers of plans like Stein's force patients to act more "responsibly" when weighing whether or not to seek certain kinds of medical treatment, or request tests and procedures. In this way, HSAs are part of what's called the "consumer-driven" healthcare movement.

But in reality, insurance programs like HSAs pose a danger to personal and public health, warn critics. Such plans leave the United States ranking consistently among the least healthy of all industrialized nations. Yes, minimal coverage and a high financial bar require patients to make hard decisions about the care they pursue, but research shows patients are notoriously bad at acting in their own best medical interests when they foot the entire bill. Instead, they ration care according to how much they can afford.

That's dangerous for any individual. But when the illness is communicable, such as tuberculosis, they put the public at risk as well as themselves. The Commonwealth Fund, a private healthcare research foundation, concluded in 2006 that people with HSAs are in the same boat as the uninsured: They delay care, they don't take their medications, and they ignore chronic problems.

As the country's healthcare crisis has worsened and costs have skyrocketed, the Bush administration and insurance industry, as well as employers, have pushed health savings accounts more heavily. The number of people with health savings accounts rose to 6.1 million in January, from less than half a million in 2004. Many of these people have insurance through individual plans and are self employed, a $116 billion market, according to Forrester Research. But HSAs are not just being marketed to self-employed people; they're also increasingly on the menu of health insurance plans provided by both big employers and small businesses.

"These health plans are ruining people's lives," said Karen Pollitz, director of Georgetown University's Health Policy Institute. Pollitz has done extensive studies on HSAs. "We have 18,000 people who die in this country every year because they can't get healthcare for treatable diseases. We need to quit messing around with these ideas that deflect the conversation of how to pay for healthcare for all until another day. HSAs are a distraction. They aren't about healthcare."

THINK OF AN HSA as the individual retirement account, or IRA, of healthcare, said Joseph Anthony, a tax accountant in Portland, Ore. When Congress created HSAs in 2004, the concept seemed simple: Couple high-deductible health plans, in which people are essentially self-insuring anyway, with a savings account that functions like any other tax-deferred retirement account. Today, health savings accounts still must be connected to a high-deductible health plan.

"When these HSAs came out, people started converting from a regular health plan with a high deductible to a high-deductible plan, or HDHP, that was linked to an HSA," said Anthony. "They thought, 'If you have a high deductible anyway, why not set it up so you can get a deduction [from your taxes] for the money you have to pay out of pocket anyway?'"

Indeed, the real attraction of HSAs is as a financial instrument for sheltering income and as an investment vehicle. According to 2008 Internal Revenue Service regulations, someone with a high-deductible plan with an HSA can annually deposit up to $2,900 as an individual policy and $5,800 for a family. That money can then be invested into savings accounts, stock, or other assets according to the client's preferences. When tax time comes, the HSA holder can take the entire amount they've deposited during the year as a deduction, whether they've used it or not. Gains on the account are tax free, unlike a traditional savings account.

Money spent from an HSA on health expenses is tax-free. Money spent on non-healthcare purchases before age 65 is taxed, and the holder pays a penalty. After age 65, however, HSA monies are taxed but can be spent on anything, making an HSA essentially the same as a traditional IRA.

If HSAs sound like a way for the wealthy to keep more of their money, you'd be right. High-deductible plans and HSAs only seem to work for the affluent, according to an April report from the Government Accountability Office. Of the approximately 2 percent of the population with an HSA, the GAO found that the average annual income was $139,000. Also according to the GAO, 41 percent of those with HSAs in 2005 did not use any of their money for health costs.

Anthony, the tax accountant, thinks he knows why.

"It's an ideal plan for well-off people who are healthy and who are looking for another way to shelter their money," he said. "If you are, say, young and healthy and don't really need medical care, and can max out your 401(k), your Roth IRA, and then still contribute a few thousand dollars to your HSA and leave it in there every year, it will accrue interest or capital gains. I have well-off clients who have these accounts and when they have medical expenses, they say, 'We have other sources of money with which to pay.' They don't want to touch that HSA because of the tax benefits."

THE PLANS ARE NOT JUST a boon for tax-savvy, affluent, healthy young professionals. They are proving to be a profitable market for the financial institutions that administer them.

While some banks don't charge fees for handling the accounts, most do. Those fees can range from a fee to open the account, to fees for each transaction, for withdrawals, and for each time you invest. Some banks that administer these accounts won't invest your money until you hit a minimum, such as $1,000, leaving the supposed growth potential of HSAs unrealized.

And, because it's an investment in the stock market, it's possible to lose money.

"Wall Street loves these things," said Pollitz. "Wall Street says this is the most lucrative financial instrument since the IRA."

Those expecting the account to function like a tax-advantaged, high-interest checking account dedicated to healthcare are likely to be shocked by the fees. Wendy Clark Levy, a human relations vice president at a Houston, Texas commercial real estate firm, is used to seeing lower-income employees sheepishly return to her office to change out of their HSA and high-deductible plan.

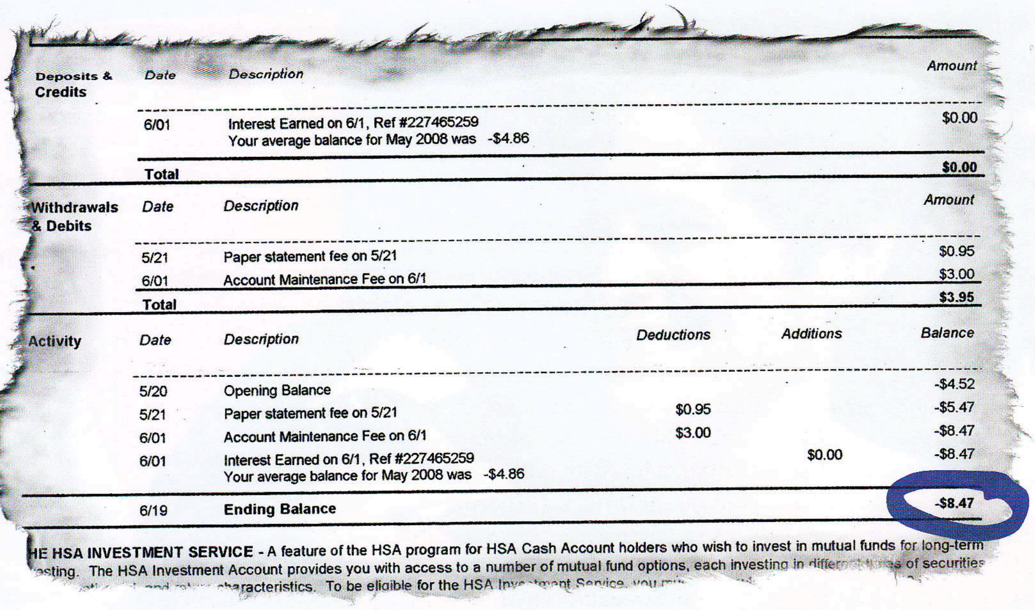
"It only seems to benefit those who can afford such a high-deductible plan," she said. "Those who subscribe and are lower-wage earners usually admit later that they didn't understand the plan or they wouldn't have [signed up]."

INDEED, HEALTH SAVINGS ACCOUNTS linked to high-deductible health plans appear to benefit everyone except the group their supporters claim they help: normal, lower- to middle-income people who may get sick once in a while, have an accident, start a family, or are likely to be managing a chronic condition. This group, which is the vast majority of Americans, faces major challenges with HSAs.

One of them is the way high-deductible health plans are structured. HSAs are always linked to high-deductible health plans, but with deductibles between $1,100 and $11,000 per year, these plans require considerable savings. Some plans may provide free or reduced-cost preventative services such as annual exams and flu shots. But most plans don't cover any other costs until the user has met the deductible. Many plans do not count prescriptions or other routine services toward the deductible. A doctor visit can run $300. A prescription can cost hundreds of dollars per month.

Until a person hits the deductible with qualifying expenses, it is almost as if the person has no health insurance at all. Everything comes out of the patient's pocket, or out of the health savings account. When patients visit the doctor, they draw from the account, often using a credit- or debit-like card.

With high deductibles, lower-income people receive little benefit from such plans. "People in the U.S. already spend more out of pocket on healthcare than any other industrialized country," said Sara Collins, assistant vice president for the Program on the Future of Health Insurance at the Commonwealth Fund. "The main point is that the trend in health benefits is to encourage more cost sharing without attention to income. Obviously, a $1,000 deductible will be higher share of income for someone who's low income than someone who's not."



Deposits & Credits	Date	Description	Amount
	6/01	Interest Earned on 6/1, Ref #227465259 Your average balance for May 2008 was -$4.86	$0.00
	Total		$0.00

Withdrawals & Debits	Date	Description	Amount
	5/21	Paper statement fee on 5/21	$0.95
	6/01	Account Maintenance Fee on 6/1	$3.00
	Total		$3.95

Activity	Date	Description	Deductions	Additions	Balance
	5/20	Opening Balance			-$4.52
	5/21	Paper statement fee on 5/21	$0.95		-$5.47
	6/01	Account Maintenance Fee on 6/1	$3.00		-$8.47
	6/01	Interest Earned on 6/1, Ref #227465259 Your average balance for May 2008 was -$4.86		$0.00	-$8.47
	6/19	Ending Balance			-$8.47

HE HSA INVESTMENT SERVICE - A feature of the HSA program for HSA Cash Account holders who wish to invest in mutual funds for long-term sting. The HSA Investment Account provides you with access to a number of mutual fund options, each investing in differ of securities characteristics. To be eligible for the HSA Inv ent Service, you m

Another primary challenge of HSAs is that they are predicated on the idea that the account holder will save money every month. At a time when the cost of everything from food to gas is on the rise, wages have stagnated, and the mortgage crisis is robbing homeowners of their equity, saving is unlikely. Cumulative American consumer debt rose to $904 billion in 2007—an increase of 6 percent over just the year before, according to the Federal Reserve System.

Three out of every four people who file for bankruptcy have health insurance, said Pollitz. It only takes abut $12,000 in debt to bankrupt a family, she added. "If you have a $10,000 deductible, it doesn't take much work to get to that $12,000," she said.

In one study, Pollitz found the cost of an average pregnancy and birth was about $10,000 – and almost all of those services were paid for out of pocket by people who had not met their deductible.

"There's a misnomer," she said. "People call high-deductible plans 'catastrophic coverage.' But I don't consider pregnancy a catastrophe. Do you?"

Lastly, HSAs do not work for the majority of people in the United States because, for them, healthcare is about treating their chronic conditions, not the occasional flu shots and annual exams covered by high-deductible plans, said Pollitz.

One in three uninsured Americans has a chronic disease like diabetes, heart disease, or hypertension. Just in the last decade, the average number of medical visits by Americans increased by a quarter, from an average of three to an average of four annually, according to a report by the U.S. Centers for Disease Control. Half of all physician office visits were made by people with chronic conditions.

"Managing chronic conditions requires regular medical care. It just does," said Pollitz. "If you have diabetes, you need to be testing your blood three to five times a day. That's expensive. Those test strips are a buck each. That's hundreds a month. The research literature shows that when people have to pay out of pocket, they don't manage their health as well."

Managing health is the whole point of health insurance – a point HSAs miss, said Don McCanne, a doctor and member of Physicians for a National Health Program. PNHP has partnered with the California Nurses Association/National Nurses Organizing Committee to support a single-payer, "Medicare for all" system to cover every American. Instead of focusing on creating backup retirement accounts for the wealthy, healthcare policy in this country needs to focus on creating a way to ensure that everyone can get quality healthcare that isn't prohibitively expensive, he said.

HSAs will fail in the long run, an Employee Benefit Research Institute report issued in August confirmed. Even if individuals save the maximum allowed each year, those funds will be woefully inadequate for covering the costs of healthcare premiums and out-of-pocket health expenses during retirement, the institute concluded.

"HSAs are not a solution at all to the problems we have in healthcare," McCanne said. "The problem we really have to address is we want everyone to be able to access healthcare without having to face financial hardship."

To learn more about the presidential candidates' healthcare platforms, see "What's at Stake in November on Healthcare" in the July|August 2008 issue of *Registered Nurse*.

IF ANYONE HAS TRIED to make an HSA work, or take "responsibility" for healthcare, it would be Emily Reece.

The 58-year-old San Francisco resident suffers from peripheral neuropathy, restless leg syndrome, chronic pain from fibromyalgia, and post-traumatic stress disorder—all of which she tries to manage under a high-deductible plan, a health savings account, and about $8,000 a year in income. Like many Americans, Reece needs medication and regular visits to the doctor to manage her health.

Reece, who asked that we change her name because she is involved in a disability lawsuit related to her healthcare, estimates that she spends 10 hours a week on the phone, in doctors' offices, sending e-mails, and talking to lawyers to line up treatment and medication she can afford. To stay healthy, she said, she's dependent on the generosity of doctors who sometimes refill her prescriptions with free samples or medications other patients have returned. She sighs and says it feels like a full-time job.

Rifling through her bills, Reece fished out the most recent statement from the bank that administers her HSA. In total, her bank charges her $3.95 a month in fees. After funding her HSA with a $1,500 gift from her partner in December 2007, the account was empty by June.

Actually, it's worse than that.

"I got this thing. Let's see, what do I owe them now?" she muttered. "Here it is: I owe my HSA $8.47. I'm going to cancel this thing because now it's costing me money. I just don't make enough money to use it as a tax write-off."

And after two years on her plan, what does Reece think of McCain's proposal to encourage HSAs and high-deductible plans as a way to solve the healthcare affordability crisis?

She guffawed and lost her breath.

"[McCain's plan is] so silly. That's ludicrous. Those of us who are low income are so far away from – you know, most of us are just trying to pay the rent and keep groceries around. The HSA, for me, has just become one more debt, and one more complicated, bureaucratic system to deal with. I'd rather deal with the IRS than deal with this thing." ■

Heather Boerner is a freelance health and medical writer in San Francisco.